APPENDIX A

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

2009-1216, -1254

AVID IDENTIFICATION SYSTEMS, INC.,

Plaintiff-Appellant,

v.

THE CRYSTAL IMPORT CORPORATION, DATAMARS SA and DATAMARS, INC.,

Defendants.

John W. Thornburgh, Fish & Richardson P.C., of San Diego, California, for plaintiff-appellant. With him on the brief were Juanita R. Brooks, Roger A. Denning, and Michael A. Amon.

K.T. Cherian, Howrey LLP, of San Francisco, California, for amicus curiae Allflex USA, Inc. With him on the brief were Ronald S. Wynn; and Richard L. Stanley, of Houston, Texas.

Appealed from: United States District Court for the Eastern District of Texas

Judge T. John Ward

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THE CRYSTAL IMPORT CORPORATION, DATAMARS SA and DATAMARS, INC.,

Defendants.

Appeals from the United States District Court for the Eastern District of Texas in case no. 2:04-CV-183, Judge T. John Ward.

DECIDED: April 27, 2010

Before MAYER, LINN, and PROST, Circuit Judges.

Opinion for the court filed by Circuit Judge PROST. Opinion concurring-in-part and dissenting-in-part filed by Circuit Judge LINN.

PROST, Circuit Judge.

Avid Identification Systems Inc. ("Avid") brought suit against Datamars SA and its subsidiary Crystal Import Corporation (collectively "Datamars") alleging infringement of Avid's U.S. Patent No. 5,235,326 ("the '326 patent") directed to a multi-mode radio-frequency identification system for reading encoded biocompatible chips. The patent was

found valid and infringed, but held to be unenforceable for inequitable conduct. This appeal challenges the district court's finding of inequitable conduct. In reviewing the district court's finding, we address which individuals are "substantively involved" in the preparation or prosecution of a patent application and thus owe a duty of candor and good faith to the Patent and Trademark Office under 37 C.F.R. § 1.56. We affirm the finding of the district court.

BACKGROUND

Avid is a small, closely held company that designs and markets biocompatible radio frequency identification chips for implantation in animals. Avid markets its chips to pet owners as a way of increasing the chances that an estranged companion animal will be identified and reunited with its family. Avid markets devices for reading its chips to animal hospitals and shelters.

Avid's founder and president, veterinarian Dr. Hannis Stoddard, testified that he decided to form the Avid corporation after visiting an animal shelter to reclaim his own lost dog. He explained that most animals at the shelter were clearly lost pets, but there was no way to find their homes. Dr. Stoddard made it his mission to implement a better system of dealing with the identification and processing of recovered animals. He and a colleague, Peter Troesch, formed Avid for the purpose of carrying out Dr. Stoddard's mission.

When the company first started, Avid purchased unencrypted identification chips from a supplier, relabeled them, and sold them as a marketer and distributor. The company discontinued its resale business model in around 1985 because Dr. Stoddard

wanted Avid to develop its own technology. Specifically, Stoddard wanted Avid to develop a chip and reader system, where the reader could read both the unencrypted chips currently on the market as well as encrypted chips that Avid produced. Stoddard hired at least three engineers, Dr. Polish, Dr. Malm, and Mr. Beigel, to carry out this objective. By about 1990, these engineers developed an encrypted identification chip that could be read by a reader programmed with Avid's decryption code. They also developed a "multi-mode" reader that could read both Avid's encrypted chip and traditional unencrypted chips.

Dr. Stoddard demonstrated some of Avid's technology at a U.S. Livestock Committee trade show in around April of 1990. In August of 1991, Avid filed for the '326 patent on a multi-mode encrypted chip and reader system, where the reader can read both unencrypted chips and Avid's encrypted chips. The inventors named on the application were Polish, Malm, and Beigel. Dr. Malm was also listed as the prosecuting attorney. A few days before the patent application was filed, the inventors assigned their rights to Avid. Dr. Stoddard signed the small entity status affidavit filed with the patent. Avid was also pursuing European patent rights for its encrypted chip and reader system during this time. The '326 patent issued in August of 1993.

Datamars is a competitor of Avid in the companion animal identification chip market. Avid brought suit against Datamars and several other competitors in 2004 alleging infringement of its '326 patent, as well as unfair competition and false advertising claims. The other defendants settled their claims with Avid. The case against Datamars proceeded to trial and a verdict.

The jury found the '326 patent willfully infringed and not invalid, and found in favor of Avid on the unfair competition and false advertising claims. The jury awarded Avid $26,981 on the patent infringement claim and $6 million on the unfair competition claim. Following the trial, Datamars filed a motion to hold the patent unenforceable for inequitable conduct. The district court granted the motion, without trial, finding that Dr. Stoddard's trade show demonstration was material prior art under 35 U.S.C. § 102(b) and that information regarding the demonstration was withheld from the U.S. Patent and Trademark Office ("PTO") with deceptive intent. Specifically, the district court found that Dr. Stoddard owed a duty of candor to the PTO.

After this ruling on inequitable conduct, the parties entered into a settlement agreement. Pursuant to the terms of the agreement, the parties stipulated to a dismissal of all claims other than those related to the '326 patent, the payment for unfair competition was reduced to $3 million, Avid filed an unopposed motion for reconsideration of the district court's inequitable conduct decision, and Datamars agreed not to contest the standing, jurisdiction, mootness, or case and controversy of the inequitable conduct decision on appeal to this court. In the event that Avid prevailed on reversing the inequitable conduct determination on motion for reconsideration or on appeal to this court, Datamars agreed to pay the $26,981 previously awarded by the jury for infringement of the '326 patent.

The district court dismissed the unopposed motion for reconsideration of the inequitable conduct decision, finding that there was no case or controversy between the parties. The district court explained

that the terms of the settlement agreement explicitly precluded Datamars from opposing the motion for reconsideration in any way, thus eliminating any adversity between the parties on all matters before the district court. The district court noted in its opinion that Avid argued, for the first time on reconsideration, that Dr. Stoddard did not have a duty of candor before the PTO.

Avid timely appealed the district court's determination of inequitable conduct to this court. Datamars did not file a brief in response.

DISCUSSION

There are two issues before this court on appeal: first, whether the court has jurisdiction to decide the issue of inequitable conduct, and second, if we do have jurisdiction, whether the district court abused its discretion in holding the '326 patent unenforceable for inequitable conduct. We discuss each in turn.

I. Case and Controversy

As a preliminary matter, we must determine whether the issue of inequitable conduct is properly before this court. The mere fact that Datamars agreed with Avid not to dispute standing, jurisdiction, mootness, and case or controversy in this appeal does not thereby give Avid standing or this court jurisdiction. Similarly, it does not create a case or controversy where one would not otherwise exist. This court must always determine for itself whether it has jurisdiction to hear the case before it, even when the parties do not raise or contest the issue. Special Devices, Inc. v. OEA, Inc., 269 F.3d 1340, 1342 (Fed. Cir. 2001); View Eng'g, Inc. v. Robotic Vision Sys., Inc., 115 F.3d 962, 963 (Fed. Cir. 1997).

Amicus Allflex argues that Avid's appeal is mooted by the settlement agreement between Avid and Datamars. Allflex argues that the provision of the settlement carving out the '326 patent and making the $26,981 payment contingent on the outcome of this appeal is not enough to preserve a controversy between the parties. Allflex argues that Datamars has no further interest in the disposition of this case, and that the $26,981 "side bet" is a nominal gesture in light of the $3 million in consideration to Datamars for agreeing not to oppose reconsideration below or the procedural appropriateness of the appeal.

For the reasons stated in the district court's opinion dismissing Avid's motion for reconsideration, we agree with the district court that the terms of Avid's settlement agreement with Datamars eliminated any case or controversy before the district court regarding the motion for reconsideration. The settlement agreement's limitations on Datamars's ability to oppose Avid's efforts on appeal, however, are different from the agreement's limitations on Datamars's ability oppose Avid's motion for reconsideration. As a result of these differences, there is still a live controversy between the parties on appeal.

A live controversy still exists because Datamars remained free under the settlement agreement to oppose this appeal on the merits. See, e.g., Kimberly-Clark Corp. v. Proctor & Gamble Distributing Co., 973 F.2d 911, 913-14 (Fed. Cir. 1992). That it chose not to submit a brief does not deprive this court of jurisdiction over the issues on appeal. Similarly, Datamars's agreement not to contest the procedural appropriateness of the appeal does not release this court from its legal obligation to determine

procedural appropriateness sua sponte. See Johannsen v. Pay Less Drug Stores N.W., Inc., 918 F.2d 160, 161 (Fed. Cir. 1990). Both the merits and procedure are therefore issues before the court on appeal.

Although the $26,981 riding on the outcome of the appeal may be dwarfed by the other monetary provisions of the settlement agreement, this amount is not a token or arbitrary sum introduced for the purpose of manufacturing a controversy. It represents the entirety of the jury award for patent infringement, which Datamars would have been legally obligated to pay to Avid if the '326 patent were not held unenforceable.

For these reasons, we conclude that there remains a live controversy between the parties on the issue of unenforceability of the '326 patent, and that this court has jurisdiction to decide the case under 28 U.S.C. § 1295(a)(1). We now turn to the merits of the issues presented.

II. Inequitable Conduct

A party may show inequitable conduct by producing clear and convincing evidence of (1) material prior art, (2) knowledge chargeable to the patent applicant of prior art and its materiality, and (3) the applicant's failure to disclose the prior art to the PTO with intent to mislead. FMC Corp. v. Manitowoc Co., 835 F.2d 1411, 1415 (Fed. Cir. 1987). Information is material if there is a "substantial likelihood that a reasonable examiner would consider it important in deciding whether to allow the application to issue as a patent." J.P. Stevens & Co. v. Lex Tex Ltd., 747 F.2d 1553, 1559 (Fed. Cir. 1984).

This court reviews the ultimate determination of inequitable conduct under an abuse of discretion standard. Kingsdown Med. Consultants Ltd. v. Hollister Inc., 863 F.2d 867, 876 (Fed. Cir. 1988) (en banc in relevant part). The underlying findings on materiality and intent are reviewed for clear error and will not be disturbed on appeal in the absence of a "definite and firm conviction" that a mistake has been made. Id. at 872.

In the present appeal, Avid challenges the district court's finding that the trade show demonstration was material and that Dr. Stoddard had a duty of candor to disclose this information. Avid does not dispute on appeal that Dr. Stoddard withheld the information with specific intent to deceive the PTO for the purposes of obtaining a patent. We thus turn to the issues of materiality and duty of candor.

A. Materiality

In evaluating materiality, this court typically refers to the definition provided in 37 C.F.R. § 1.56, by which the PTO promulgated the duty of disclosure. See Astrazeneca Pharm. LP v. Teva Pharm. USA, 583 F.3d 766, 773 (Fed. Cir. 2009). Information is material where a reasonable examiner would find it important to a determination of patentability. Id.

On appeal, Avid argues that the district court's finding of materiality was clearly erroneous because Dr. Stoddard's trade show demonstration related to a precursor product that did not contain all of the elements of the '326 patent claims. Avid's arguments against materiality focus on the fact that a jury was presented with the trade show information and still found the patent not invalid. Avid con-

cludes that the jury must have found that the trade show demonstrations were not § 102(b) prior art. Such arguments, however, confuse the concepts of "material" and "invalidating." We have often held that a reasonable examiner may find a particular piece of information important to a determination of patentability, even if that piece of information does not actually invalidate the patent. See Praxair, Inc. v. ATMI, Inc., 543 F.3d 1306, 1314-15 (Fed. Cir. 2008) (holding that similar prior art that did not meet all of the patent's claim limitations was nonetheless material); Upjohn Co. v. Mova Pharm. Corp., 225 F.3d 1306, 1312 (Fed. Cir. 2000); Molins PLC v. Textron, Inc., 48 F.3d 1172, 1179-80 (Fed. Cir. 1995).

The district court found that sales demonstrations would be important to a determination of patentability under § 102(b). See 35 U.S.C. § 102(b) ("the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States"). The district court found that the precursor product, while not invalidating, reflected the closest prior art, and thus was highly material to patentability. We hold that the district court's analysis of materiality is not clearly erroneous.

B. Duty of Candor

PTO Rule 56, codified at 37 C.F.R. § 1.56, imposes on all individuals associated with the filing and prosecution of a patent application a duty of candor and good faith in dealing with the PTO during the period of examination of a patent application. 37 C.F.R. § 1.56(a). The duty of candor includes a duty to disclose to the PTO all information known to each individual that is material to the issue of pa-

tentability. Id. This information includes prior sale or public use of the invention one year or more before the filing date of the application. See 37 C.F.R. § 1.56(b). Thus, to have a duty to disclose information to the PTO, an individual must (1) be associated with the filing and prosecution of a patent application such that he owes a duty of candor to the PTO, and (2) know that the information is question is material. Id. § 1.56(a).

For purposes of identifying who owes a duty of candor to the PTO, Rule 56 defines "individual[s] associated with the filing or prosecution of a patent application" as (1) each named inventor, (2) each attorney or agent that prepares or prosecutes the application, and (3) every other person who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor or assignee. 37 C.F.R. § 1.56(c). Individuals other than the attorney, agent, or inventor, who are "substantively involved in the preparation or prosecution of the application," may comply with their duty of candor by disclosing known material information to one of the attorney, agent, or inventor. 37 C.F.R. § 1.56(d).

If an individual who is substantively involved in the preparation or prosecution of an application fails to comply with his duty of candor, then that individual's misconduct is chargeable to the applicant for the patent, and the applicant's patent is held unenforceable. Molins, 48 F.3d at 1178; FMC Corp., 835 F.2d at 1415 n.8. In this case, it is undisputed that Dr. Stoddard is not an inventor of the '326 patent, or an attorney or agent who prepared the '326 patent application. Thus, whether Dr. Stoddard owed a duty of candor to the PTO, such that his mis-

conduct would be chargeable to Avid (the applicant for the '326 patent), depends on whether he was an individual who was "substantively involved in the preparation or prosecution of the application" and "associated with the inventor or assignee." 37 C.F.R. § 1.56(c)(3).

What constitutes "substantive[] involve[ment] in the preparation or prosecution of the application," the issue on which this case turns, has not previously been addressed by this court. We read "substantively involved" to mean that the involvement relates to the content of the application or decisions related thereto, and that the involvement is not wholly administrative or secretarial in nature. See Manual of Patent Examining Procedures § 2001.01 (8th ed., rev. 2, May 2004).

In this case, the district court made the following findings of fact with respect to inequitable conduct:

> 1) that Avid was aware of the consequences of selling or offering to sell its reader and tag before filing the '326 patent application, 2) that Avid attempted to file the '326 patent application in advance of the 102(b) date, i.e. within one year after its first sales, but failed, and 3) that Avid intentionally withheld evidence of such sales from the PTO in an effort to deceive the PTO and secure allowance of the '326 patent.[1]

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[1] The district court's use of "Avid" in these findings is not entirely clear because only individuals, rather than corporations such as Avid, owe a duty of candor to the PTO. Exergen Corp. v. Wal-Mart Stores, Inc., 575 F.3d 1312, 1328 (Fed. Cir. 2009); Manual of Patent Examining Procedures § 2001.01 (explaining

Inequitable Conduct Order at 7. Based on these findings, the court concluded that Avid acted with deceptive intent during prosecution of the '326 patent. Id. at 8.

In support of its inequitable conduct finding, the district court also made several findings related specifically to Dr. Stoddard. Id. Based on these findings, the district court concluded that Dr. Stoddard was "substantively involved" within the meaning of 37 C.F.R. § 1.56(c)(3), such that he owed a duty of candor to the PTO.

The district court's fact findings related to Dr. Stoddard include: the nature of his position as president and founder of Avid, that Avid is a closely held company, and that Stoddard hired the inventors to reduce his encrypted chip concept to practice. Id. These facts establish that Dr. Stoddard was associated with the inventors of the '326 patent and with the assignee, Avid, in accordance with the latter requirement of § 1.56(c)(3).

With respect to the first requirement of § 1.56(c)(3), requiring that the individual be substantively involved in the preparation or prosecution of the application, the district court found that Dr. Stoddard was "involved in all aspects of the company's operation, from marketing and sales to research

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that "the duty applies only to individuals, not to organizations"). Accordingly, only individuals can breach that duty and give rise to a finding of inequitable conduct. Id. Although the district court opinion mentions a few different individuals, it appears that all of its inequitable conduct conclusions with respect to "Avid" refer to the conduct of Dr. Stoddard that is imputed to Avid. See Avid Identification Sys. Inc. v. Crystal Import Corp., No. 2:04-CV-183, slip op. at 8 (E.D. Tex. Sept. 28, 2007) ("Inequitable Conduct Order").

and development." Inequitable Conduct Order at 8. Dr. Stoddard's involvement in "all aspects" of Avid, including its research and development, contributes to a reasonable inference that he was also involved in the preparation of the patent application relating to that research. That this fact would contribute to such an inference is especially reasonable here, since the '326 patent was directed to the system that fulfilled Dr. Stoddard's personal mission and the purpose for which his company was created.

The district court also cited two communications related to Dr. Stoddard's substantive involvement in patent matters. See Def. Trial Ex. #27 and Def. Trial Ex. #251. One communication was from an inventor named in the '326 patent and contained content for a European patent application. Dr. Stoddard was one of two recipients of this communication, the other being the European prosecuting attorney. The European patent application was the international phase of the '326 patent application. The other communication was a note from the same inventor to Dr. Stoddard advising him to check with Avid's European patent attorney before demonstrating any of Avid's technology, as it might affect Avid's patent rights in Europe.

The district court discussed these documents and found that they also contributed to an inference that Dr. Stoddard was substantively involved in patent matters related to the identification chip system. The documents related to the European filing refer to the same subject matter as the '326 patent, and preparations for both patent applications were underway at roughly the same time. Given the nature and content of these communications, and the district court's findings with respect to Dr.

Stoddard's role in the company, the inference that Dr. Stoddard was similarly involved in the '326 patent application is reasonable and the finding of substantive involvement is not clearly erroneous.

Additionally, the district court determined that Dr. Stoddard's testimony at trial was not credible, his memory of facts was suspiciously selective, and he refused to acknowledge certain incontrovertible events.[2] See Inequitable Conduct Order at 4. The district court's findings with respect to Dr. Stoddard's lack of credibility as a witness cast doubt on Dr. Stoddard's assertion that he did not understand the claimed technology and was not involved in the preparation of the '326 patent application.

Our conclusion that the district court's duty of candor analysis was not clearly erroneous is reinforced by our own review of the entire record and relevant case law, which reveals sufficient reason to uphold the district court's judgment. Cf. Bruno Indep. Living Aids, Inc. v. Acorn Mobility Servs. Ltd., 394 F.3d 1348, 1354 (Fed. Cir. 2005) ("While the district court indeed provided little explicit support for its finding of intent, it is well established that, as an appellate tribunal, we review judgments, not opinions. We therefore focus our review on whether there is sufficient evidence in the record to sustain the judgment of intent to deceive the PTO." (citing Black v. Cutter Labs., 351 U.S. 292, 297 (1956); Stratoflex, Inc. v. Aeroquip Corp., 713 F.2d 1530, 1540 (Fed. Cir. 1983); Consol. Aluminum Corp. v. Fo-

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[2] For example, Dr. Stoddard was Avid's main fact witness on the issue of patent validity, and the district court explicitly discredited the portions of his testimony relevant to the validity of the '326 patent under § 102(b).

seco Int'l Ltd., 910 F.2d 804, 814 (Fed. Cir. 1990) ("An appellate court need not close its eyes to the record where . . . there is a way clearly open to affirm the district court's action.")))).

Dr. Stoddard was personally responsible for the disputed prior art demonstrations. He was in contact with at least one of the inventors during the preparation of the '326 patent application regarding patent-related matters. He was also advised by that inventor to check with a patent attorney before disclosing information about Avid's technology to the public. He signed the small entity status affidavit shortly before the application was filed. These facts lend further support to the inference that Dr. Stoddard was substantively involved in preparations for filing the application, and demonstrate that Dr. Stoddard spoke for Avid in representations to the PTO.

Although Dr. Stoddard did not contribute enough to the patentable features of the claims to be considered an inventor, the functionality of the system described in the '326 patent was his idea. The inventors he hired were specifically instructed to reduce his idea to practice. Dr. Stoddard's inclusion on substantive communications related to the preparation of the European counterpart to the '326 patent application further support the more general conclusion that he was substantively involved in preparation of the patent application covering the system he conceived.

Under the terms of Rule 56, the PTO does not assign a duty of candor to persons not associated with a patent application, or to those involved only in a ministerial capacity. Such persons would not be in a position to appreciate that their conduct or

knowledge might be relevant to the PTO.[3] The district court did not clearly err in determining that Dr. Stoddard was not such an exempt person. Indeed, to accept Avid's argument that a person such as Dr. Stoddard owes no duty of candor would allow intentional deception by the types of people most likely to have knowledge of § 102(b) prior art, i.e., those on the commercial side of patented product development.

The dissent errs by conflating Rule 56's requirements of substantive involvement and knowledge that the undisclosed information is material. According to the dissent, the "substantively involved" has a knowledge requirement; the person must be "able to assess the materiality of any information [that person] may know or discover." Dissent at 4. The dissent's proposed definition fails, however, because that is not what Rule 56 says. Involvement and knowledge are separate inquiries under Rule 56, located in separate sections (subsections (c) and (a), respectively) and serving different purposes. Under § 1.56(c), we ask whether a person is substantively involved with the preparation or prosecution of a patent application in order to determine whether

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[3] Our holding does not automatically extend the duty of candor to all individuals who contact one of the inventors or sign the small entity affidavit. Nor does our holding extend the duty generally to all individuals on the commercial side of product development. We simply hold that the district court may properly consider a variety of factors, such as an individual's position within the company, role in developing or marketing the patented idea, contact with the inventors or prosecutors, and representations to the PTO in deciding whether that individual is "substantively involved" within the meaning of § 1.56(c)(3) and thus owes a duty of candor to the PTO.

that person is associated with the filing and prosecution of a patent application, and thus owes a duty of candor to the PTO under § 1.56(a). Nothing in § 1.56(c)(3) requires, as the dissent suggests, the individual be "able to assess the materiality of any information [he] may know or discover" in order to be substantively involved. Dissent at 4. Rather, what a person knew or should have known only matters after he is found to be "associated with the filing and prosecution of a patent application," such as by being substantively involved. Id. § 1.56(a).

In other words, a finding that an individual was "substantively involved in the preparation or prosecution" of a patent application only determines that the individual owed a duty of candor to the PTO. Whether the individual involved in the alleged misconduct owed a duty of candor to the PTO is merely a threshold inquiry in the inequitable conduct analysis. Once a court finds that the individual had a duty of candor, the court must proceed to the dual prongs of materiality and deceptive intent, to determine whether that duty was violated. This subsequent analysis, in particular the deceptive intent inquiry, encompasses the concerns raised by the dissent. If an individual is unable to assess the materiality of the information at issue, then he would lack the deceptive intent required to find that he committed inequitable conduct.[4] Therefore, the dissent's main objection to our "substantive involvement" test is misplaced.

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[4] As occurred here, the district court may find the same evidence probative of whether a person was "substantively involved" and whether that person acted with deceptive intent. The inquiries, however, are distinct.

Based on the district court's findings and on the entirety of the evidence of record, we hold that the district court did not abuse its discretion in rejecting Avid's argument that Dr. Stoddard owed no duty of candor to the PTO. Dr. Stoddard withheld material information regarding his sales demonstrations of products that reflected the closest prior art to the claims of the '326 patent. Dr. Stoddard acted with deceptive intent. Dr. Stoddard's actions are imputed to Avid, the patent holder. We therefore affirm the district court's judgment that Avid's '326 patent is unenforceable due to inequitable conduct.

AFFIRMED

COSTS

Each party shall bear its own costs.

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

2009-1216, -1254

AVID IDENTIFICATION SYSTEMS, INC.,

Plaintiff-Appellant,

v.

THE CRYSTAL IMPORT CORPORATION, DATAMARS SA and DATAMARS, INC.,

Defendants.

Appeal from the United States District Court for the Eastern District of Texas in case no. 2:04-CV-183, Judge T. John Ward.

LINN, Circuit Judge, concurring-in-part and dissenting-in-part.

I am pleased to join Parts I and IIA of the majority opinion concluding that there remains a live controversy between the parties on the issue of unenforceability of U.S. Patent No. 5,235,326 ("the '326 patent") and affirming the district court's materiality ruling. I respectfully dissent, however, from Part IIB affirming the district court's ruling that the duty of candor required by 37 C.F.R. § 1.56(c)(3) applies to Dr. Stoddard.

This case involves the application of 37 C.F.R. § 1.56 ("Rule 56"), a rule adopted by the United States Patent and Trademark Office ("PTO") that places on defined individuals a duty of candor and good faith, including a duty of disclosure, in dealing

with the PTO during the period of examination of a patent application. 37 C.F.R. § 1.56(a). These individuals include: (1) each named inventor; (2) each attorney or agent who prepares or prosecutes the application; and (3) "[e]very other person who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application." 37 C.F.R. § 1.56(c). Since Dr. Stoddard is not a named inventor or an attorney or agent associated with the filing of the '326 patent, the question presented in this case turns on the application of Rule 56(c)(3), which, as the majority recognizes, has never been explicitly addressed by this Court.

Rule 56(c)(3) lists two criteria that must be met before imposing a duty of disclosure on an individual. First, the individual must be "substantively involved in the preparation or prosecution of the application." 37 C.F.R. § 1.56(c)(3). Second, the individual must be "associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application." Id. I agree with the majority that Dr. Stoddard was associated with the inventors of the '326 patent and that the second prong of Rule 56(c)(3) is met in this case. Where I part company with the majority is the conclusion that Dr. Stoddard was "substantively involved in the preparation or prosecution of the ['326 patent] application" as required by the first prong of Rule 56(c)(3).

We review a district court's determination of inequitable conduct under an abuse of discretion standard. Kingsdown Med. Consultants Ltd. v. Hollister Inc., 863 F.2d 867, 876 (Fed. Cir. 1988) (en banc). "We will not substitute our judgment for that

of the trial court in relation to the discretionary ruling of inequitable conduct unless the appellant establishes that the ruling is based upon clearly erroneous findings of fact or a misapplication or misinterpretation of applicable law or that the ruling evidences a clear error of judgment on the part of the district court." Brasseler, U.S.A. I, L.P. v. Stryker Sales Corp., 267 F.3d 1370, 1379 (Fed. Cir. 2001). In my view, the district court both misapplied Rule 56(c)(3) and clearly erred in finding that Dr. Stoddard was "substantively involved in the preparation or prosecution of the application." Accordingly, I would reverse the determination that the '326 patent is unenforceable due to inequitable conduct.

I. Who Owes the Duty of Candor

The majority correctly recognizes that the duty of candor is codified at 37 C.F.R. § 1.56 and includes the duty to disclose to the PTO all information that is material to the issue of patentability known to certain individuals. 37 C.F.R. § 1.56(a). As the majority further notes, the question in this case is to whom does the duty of candor extend under the language "every other person who is substantively involved" in Rule 56(c)(3)?

The majority holds that a district court may consider an "individual's position within the company, role in developing or marketing the patented idea, contact with the inventors or prosecutors, and representations to the PTO" when deciding whether an individual is "substantively involved," regardless of whether those factors relate to the person's awareness of the merits of the application in question or engagement in any specific activity relating to that application. Majority Op. at 12, 14, 15 n.4. The majority goes even further to extend the duty gener-

ally to "those on the commercial side of patented product development," because they are "the types of people most likely to have knowledge of § 102(b) prior art." Majority Op. at 15. With all due respect, I find no basis in the rule or in any policy for such an expansive reading of Rule 56(c)(3).

The obligation imposed by the duty of candor is to disclose to the PTO information "material to patentability." 37 C.F.R. § 1.56(a). Because one cannot assess whether information is "material to patentability" without knowledge of the technical details or legal merits of an application, it should be self-evident that when Rule 56(c)(3) talks about persons who are "substantively involved" it is referring to those persons who are both (1) engaged in the preparation or prosecution of an application and (2) sufficiently apprised of the technical details or legal merits of the application as to be able to assess the materiality of any information they may know or discover as the application is prepared or prosecuted. This naturally excludes not only the "typists, clerks, and similar personnel who assist with the application" in a non-substantive way as described in the Manual of Patent Examining Procedure ("MPEP") § 2001.01, but also corporate officers, managers, employees, and all other individuals who are neither aware of the technical details or legal merits of the application nor engaged in the preparation or prosecution thereof. Simply having a general interest or even a financial interest in the invention or a general awareness of the application is not enough.

This interpretation does not improperly import into Rule 56(c)(3) the knowledge component from materiality, as suggested by the majority. Majority Op. at 15. Instead, it recognizes that Rule

56(c)(3) uses the phrase "substantively involved." The use of the word "substantive[]" limits the set of individuals who have a duty to disclose to those who possess a specific understanding of the substance of the application. This has nothing to do with the question of whether any particular piece of information is material, but relates to the separate question of whether a person is substantively involved; i.e., sufficiently apprised of the details of the application as to be in a position to make that assessment. Reading the separate parts of Rule 56 in harmony is not improperly conflating them, as the majority suggests.

The majority reads "substantive[]" to mean that the involvement "relates to the content of the application or decision related thereto, and that the involvement is not wholly administrative or secretarial in nature." Majority Op. at 10 (citing MPEP § 2001.01 (8th ed., rev.2, May 2004)). Such an expansive interpretation is nowhere suggested in the cited section of the MPEP or anywhere in Rule 56. The PTO could easily have written a rule as broad as that set forth by the majority. However, the PTO purposefully limited the duty of disclosure to material information in order to limit the submission of irrelevant and cumulative information that could overwhelm the PTO and obscure potentially important disclosures. See Duty of Disclosure, 42 Fed. Reg. 5589 (Jan. 28, 1977) ("'Relevant' is replaced by 'material' because the latter term connotes something more than a trivial relationship."); MPEP § 2001 (8th ed., rev.2, May 2004) ("There is no duty to submit information which is not material to the patentability of any existing claim."). By extension, the PTO also limited the duty to those individuals in a position to determine what disclosures are material—those sub-

stantively involved in the preparation or prosecution of the application.

While I do not quibble about the majority's characterization of this as a threshold inquiry, calling it such does not justify writing "substantively" out of the rule and lowering the threshold to extend the duty to disclose to everyone having some relationship to the invention or application no matter how peripheral or tangential it may be to the substance of the application. The majority's interpretation places on persons who are not in a position to assess materiality an obligation to disclose information the relevance of which they have no way of determining. The effect is either to encourage the filing of information regardless of its materiality, just to be on the safe side, or to widen the net of inequitable conduct that may be cast by accused infringers after the fact in litigation. Neither result is desired or warranted and cannot be justified on the rationalization that Rule 56(c)(3) is simply an innocuous threshold inquiry. Indeed, this court has held that the identity of the individual accused of inequitable conduct is essential to the determination of whether the patent can be found unenforceable. See Exergen Corp. v. Wal-Mart Stores, Inc., 575 F.3d 1312, 1330 (Fed. Cir. 2009) ("The pleading, however, provides no factual basis to infer that any specific individual, who owed a duty of disclosure in prosecuting the '685 patent, knew of the specific information in the [prior art] patents that is alleged to be material to the claims of the '685 patent.").

Finally, the majority suggests that intent should solve the concern I have expressed. Majority Op. at 16. With all due respect, that suggestion is premised on circular reasoning that ignores Rule

56(c)(3) entirely. If intent was all that mattered, there would be no need to be concerned at all about who had the duty to disclose.

II. Dr. Stoddard's Involvement

In this case, there is no evidence that Dr. Stoddard was substantively involved in the preparation or prosecution of the application for the '326 patent. Specifically, there is no evidence to even suggest that Dr. Stoddard had any knowledge of the technical details or legal merits of the application for the '326 patent while it was being prepared or prosecuted. I find it significant that no document or testimony shows that Dr. Stoddard participated in any inventor meeting with patent counsel, received a draft of the application prior to filing, or received any draft response of an office action to the PTO during prosecution or was otherwise apprised of the technical details or legal merit of the application. In fact, Robert Malm, the prosecuting attorney of the '326 patent, testified that Dr. Stoddard was not substantively involved in the preparation or prosecution of the patent. J.A. 14100, 14104 (Malm's testimony stating that he did not have any conversations with Dr. Stoddard about patent prosecution matters and that no individual at Avid reviewed responses before they were filed with the PTO).

The majority cites two communications as evidence sufficient to support the district court's inference that Dr. Stoddard was substantively involved in the '326 application. Majority Op. at 12-13. Neither of these documents actually related to the '326 application. The first memo, addressed to Dr. Stoddard from a named inventor of the '326 patent, mentioned only the possible effect of Avid sales on a European patent application. The second memo, which indi-

cated that Dr. Stoddard was provided a copy, was addressed to a patent attorney who was never involved in the '326 patent application and included new material for an unspecified patent application. This memo did not give any indication that it was in any way related to the '326 patent application. These documents do not support the conclusion that Dr. Stoddard had any awareness of the details or merits of the '326 application.

The majority incorrectly points to Dr. Stoddard's involvement in Avid's research and development as a factor indicating that he was substantively involved in the preparation of the patent application relating to that research. Majority Op. at 12. Dr. Stoddard's research activities are simply evidence that Dr. Stoddard was "associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application." 37 C.F.R. § 1.56(c)(3). Because it is the actual substance of the application that defines what constitutes "material" information that the individual must disclose to the PTO, Rule 56 requires more than just this association. See 37 C.F.R. § 1.56(b)(1), (c)(3).

The majority also ascribes significance to the fact that Dr. Stoddard was personally responsible for certain prior art demonstrations. Majority Op. at 14. However, this fact does not contribute to a finding that Dr. Stoddard was substantively involved in the patent application. While employees who perform product demonstrations may well be the individuals most likely to have knowledge of prior art, that knowledge, in itself, does not give rise to a duty of disclosure to the PTO. See Kemin foods, L.C. v. Pigmentos Vegetales Del Centro S.A. de C.V., 464

F.3d 1339, 1346 (Fed. Cir. 2006) (affirming district court's refusal to find inequitable conduct based on the failure of an employee scientist—not a named inventor—to disclose a prior art reference noting that he was "only tangentially involved in prosecution" of the patent). Unless such an individual also has knowledge of the technical details or legal merits of the patent application and is engaged in the preparation or prosecution thereof, he is not bound by Rule 56. Moreover, while the district court found Dr. Stoddard's testimony on the issue of prior art demonstrations was less than candid, that neither shows that he was involved in the '326 patent application nor demonstrates that whatever involvement he may have had was substantive in any way.

Finally, Dr. Stoddard's signature on the small entity status affidavit, declaring that Avid is a small business concern eligible for reduced patent application fees, provides no evidence that he had any knowledge of the substantive details contained in the patent application. The small entity status document relates only to information about the corporation and not to anything material to patentability.

The majority states that Dr. Stoddard is substantively involved in the application for the '326 patent based on the entirety of the evidence in the record. However, as noted above, none of the individual pieces of evidence the majority cites as the basis for this finding—Dr. Stoddard's role in the company, the two memos regarding patent prosecution, the small entity status affidavit, Dr. Stoddard's involvement in the product demonstrations, or Dr. Stoddard's lack of credibility at trial—show that Dr. Stoddard was even peripherally involved with the actual application at issue. Simply combining the evidence does not

change the fact that there is nothing in the record showing that Dr. Stoddard had anything at all to do with the application for the '326 patent.

For the foregoing reasons, it is my view that the evidence does not support a finding that Dr. Stoddard was substantively involved in the preparation or prosecution of the '326 patent. He was neither engaged in the preparation or prosecution of the '326 patent application nor sufficiently apprised of its technical details or legal merits to allow him to assess what information would be considered material to its patentability. Because the district court misapplied Rule 56(c)(3) and clearly erred in extending the duty of disclosure to Dr. Stoddard, I would reverse the finding that the '326 patent is unenforceable due to inequitable conduct.

APPENDIX B

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

AVID IDENTIFICATION SYSTEMS, INC.,

Plaintiff-Appellant,

v.

THE CRYSTAL IMPORT CORPORATION, DATAMARS SA AND DATAMARS, INC.,

Defendants.

2009-1216, -1254

Appeals from the United States District Court for the Eastern District of Texas in case no. 2:04-CV-183, Judge T. John Ward.

ON PETITION FOR PANEL REHEARING AND REHEARING EN BANC

Before RADER, *Chief Judge*,* NEWMAN, MAYER,** LOURIE, BRYSON, GAJARSA, LINN, DYK, PROST, and MOORE, *Circuit Judges*.

PER CURIAM.

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* Randall R. Rader assumed the position of Chief Judge on June 1, 2010.

** Haldane Robert Mayer did not participate in the poll.

NEWMAN, *Circuit Judge*, dissents from the denial of the request for a stay.

JOHN W. THORNBURGH, Fish & Richardson P.C., of San Diego, California, filed a combined petition for panel rehearing and rehearing en banc for plaintiff-appellant. With him on the petition were JUANITA R. BROOKS, ROGER A. DENNING, MICHAEL A. AMON, and BRIAN WACTER.

K.T. CHERIAN, Howrey LLP, of San Francisco, California, for amicus curiae Allflex USA, Inc. With him on the motion was RICHARD L. STANLEY, of Houston, Texas.

ORDER

A combined petition for panel rehearing and rehear-ing en banc was filed by Plaintiff-Appellant, Avid Identification Systems, Inc. ("Avid"). Separately, Avid filed a motion to join in the pending en banc review in *Therasense v. Becton Dickinson and Co.*, 2008-1511, -1512, -1513, -1514, -1595 or, alternatively, to stay the mandate of this case pending disposition of *Therasense*. The panel denied Avid's motion. The combined petition and motion were referred to the circuit judges who are in regular active service. A poll was requested, taken, and failed.

Upon consideration thereof,

IT IS ORDERED THAT:

(1) The motion to join in the pending en banc review in *Therasense v. Becton Dickinson and Co.*, 2008-1511, -1512, -1513, -1514, -1595 or, alternatively, to stay the mandate of this case is denied.

(1) The petition for panel rehearing is denied.

(2) The petition for rehearing en banc is denied.

(3) The mandate of the court will issue on July 23, 2010.

FOR THE COURT

July 16, 2010
Date

/s/ Jan Horbaly
Jan Horbaly
Clerk

cc: John W. Thornburgh, Esq.
K.T. Cherian, Esq.

United States Court of Appeals for the Federal Circuit

AVID IDENTIFICATION SYSTEMS, INC.,
Plaintiff-Appellant,

v.

THE CRYSTAL IMPORT CORPORATION, DATAMARS SA AND DATAMARS, INC.,
Defendants.

2009-1216,-1254

Appeal from the United States District Court for the Eastern District of Texas in Case No. 2:04-CV-183, Judge T. John Ward.

NEWMAN, *Circuit Judge*, dissenting from denial of the request for a stay.

Avid moves this court to stay its petition for rehearing en banc until our en banc consideration of *Therasense, Inc. v. Becton, Dickinson & Co.*, 593 F.3d 1289 (Fed. Cir. 2010), which bears on the precise issue of Avid's appeal, that is, the criteria for "inequitable conduct" during patent prosecution. I would grant this stay. The law as applied in *Avid* is subject to conflicting precedent, a conflict whose resolution is reasonably likely to alter the result. Thus it is prudent, and just, to hold Avid's petition while the law is clarified.

The court today has declined to do so, rendering the subject patent permanently unenforceable, although the patent was found valid on the same prior art that is the basis for its unenforceability.

The practice of staying the finality of related cases while the law is clarified is not unusual. The Supreme Court often holds petitions for writ of certiorari in cases involving the same issue being decided in another case before the Court. As explained in *Lawrence v. Chater*, "'We fulfill our judicial responsibility by instructing the lower courts to apply the new rule retroactively to cases not yet final.'" 516 U.S. 163, 167 (1996) (quoting *Griffith v. Kentucky*, 479 U.S. 314, 323 (1987)). Thus the Supreme Court "regularly hold[s] cases that involve the same issue as a case on which certiorari has been granted and plenary review is being conducted in order that (if appropriate) they may be [granted, vacated and remanded] when the case is decided." *Id.* at 181 (Scalia, J., dissenting on other grounds). The Court elaborated that this practice conserves judicial resources while alleviating the potential for unequal treatment of pending cases raising similar issues. *Id.* at 167.

Such consideration is equally salutary upon en banc review in this court, when the purpose of the review is to establish consistent national law, and other pending cases are reasonably likely to be affected. As applied to *Avid*, it is grievously unjust to eradicate this patent on grounds that may soon be changed by the en banc court. Our Order in *Therasense* is of broad range, in the context of "inequitable conduct" in patent prosecution, and includes the following questions concerning materiality:

> Q3. What is the proper standard for materiality? What role should the United States Patent and Trademark Office's rules play in defining materiality? Should a finding of materiality require that but for the alleged misconduct, one or more claims would not have issued?

Therasense, Inc. v. Becton, Dickinson & Co., Nos. 2008-1511, -1512,-1513,-1514, -1595, 2010 WL 1655391, at *1 (Fed. Cir. Apr. 26, 2010) ("*Order*"). Extensive *amicus curiae* participation has ensued, for the burden on the innovation community of this court's inconsistent rulings has achieved national notoriety. *See, e.g.*, 155 CONG. REC. S2715 (daily ed. Mar. 3, 2009) (statement of Sen. Hatch) ("The inequitable conduct defense is frequently pled, rarely proven and always drives up the cost of litigation tremendously.").

This court held that Dr. Stoddard's demonstration during the Livestock Committee trade show of what the panel calls "some of Avid's technology," and Avid calls a "precursor product," was material to patentability and that Dr. Stoddard was required to assure that the patent examiner was informed.[1] According to the panel opinion, the district court "found

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[1] The motion papers describe the demonstration as two radio frequency components called "the e5500B integrated circuit and the Standard Reader." These items, and their demonstration, were presented in the jury trial and were found not to invalidate the patent in suit. *See* J.A. 30 (Jury Verdict); *Avid Identification Sys., Inc. v. Crystal Import Corp.*, No. 2:04-CV-183, 2007 WL 2901415, at *1 (E.D. Tex. Sept. 28, 2007) ("*Avid I*") ("The jury upheld the validity of the asserted claims of the '326 patent, found the defendants liable for the willful infringement of claims of each patent, and found the defendants liable on Avid's unfair competition claim.").

that the precursor product, while not invalidating, reflected the closest prior art, and thus was highly material to patentability." *Avid Identification Sys., Inc. v. Crystal Import Corp.*, 603 F.3d 967, 973 (Fed. Cir. 2010) ("*Avid II*"). While "closest prior art" has been discussed in the context of whether certain information is cumulative of that already presented to an examiner, *see, e.g.*, *AstraZeneca Pharms. LP v. Teva Pharms. USA*, 583 F.3d 766, 773-75 (Fed. Cir. 2009), it has never been the law that information is "highly material" simply because it is "closest." It is not disputed that whatever was demonstrated was not an invalidating disclosure of the patented invention, and not a sale or offer to sell the patented invention, for the jury found that the demonstration at the Livestock Committee was not invalidating. *See Avid I*, 2007 WL 2901415, at *1.

Dr. Stoddard, who is the president of Avid, is a veterinarian whose principal occupation is running an animal hospital; he is not an electronics engineer and not a chip designer and not an inventor of the patented device and not a lawyer. *See Avid II*, 603 F.3d at 970. On the undisputed fact that the challenged information is not invalidating, the court's holding of inequitable conduct is sufficiently questionable to warrant a stay until this court resolves the larger issues before us, including the en banc Order's query: "Should a finding of materiality require that but for the alleged misconduct, one or more claims would not have issued?" *Order*, 2010 WL 1655391, at *1. It is at least possible that the court will answer this question in the affirmative. Although I do not venture to guess how *Therasense* will fare overall, it is not unreasonable to expect that it may affect the *Avid* decision.

The *Avid* panel applied the former Rule 56 standard of materiality as stated in *J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1559 (Fed. Cir. 1984), although this standard was abandoned by the PTO in 1992. The information here criticized does not appear to violate the current Rule 56 standard, and Dr. Stoddard is not within the cadre upon whom is placed the obligation of understanding the patent law, as Judge Linn explained in his dissent. I must, respectfully, dissent from the court's refusal to stay this appeal in view of the en banc proceeding in *Therasense*.

APPENDIX C

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

CASE NO. 2:04-CV-183

AVID IDENTIFICATION SYSTEMS, INCORPORATED,

vs.

PHILLIPS ELECTRONICS NORTH AMERICA CORPORATION, ET AL.

MEMORANDUM OPINION AND ORDER

1. Introduction

Datamars SA ("Datamars") and The Crystal Import Corporation ("Crystal") (collectively, "the defendants"), have filed a motion (#377) to render U.S. Patent No. 5,235,326, which is assigned to the plaintiff, Avid Identification Systems, Incorporated ("Avid"), unenforceable for inequitable conduct. For the reasons discussed herein, the court grants the defendants' motion (#377) and declares U.S. Patent No. 5,235,326 unenforceable.

2. Background Facts and Procedural Posture

The '326 patent, entitled "Multi-Mode Identification System," was filed on August 15, 1991,[1] by inventors Michael Beigel, Nathaniel Polish, and Robert Malm. In addition to his inventive capacity, Robert Malm also served as the prosecuting attorney for the '326 patent. According to assignment records at the U.S. Patent and Trademark Office ("PTO"), each inventor assigned his prospective rights in the '326 patent to Avid[2] in August 1991. Dr. Hannis Stoddard is the president of Avid, and was acting in this capacity during the prosecution of the '326 patent.

The '326 patent is directed to radio frequency identification ("RFID") tags and readers, the two components to an electronic identification system. This type of identification system has a number of applications, including the identification of pets and livestock. For example, a unique tag can be implanted in an animal, such as a bird, and a reader can thereafter identify the animal by communication with and recognition of the unique tag identifier. A key object of the '326 patent is to provide a single reader that will read tags of different designs and manufacturers.

At trial, Avid accused the defendants of unfair competition, and of infringing U.S. Patent Nos.

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[1] The 102(b) critical date for the '326 patent is therefore August 15, 1990.

[2] The inventors originally assigned their interests to Avid Marketing, Inc. In August 1999, Avid Marketing, Inc. assigned its rights in the '326 patent to Avid Identification Systems, Inc. The court's use of the term "Avid" encompasses both corporate entities.

5,214,409, 5,499,017, and 5,235,326 ("the '326 patent"). In response, the defendants alleged that the '326 patent was invalid in light of pre-critical date reader and tag sales by Avid. The jury upheld the validity of the asserted claims of the '326 patent, found the defendants liable for the willful infringement of claims of each patent, and found the defendants liable on Avid's unfair competition claim. After the jury trial, the parties agreed to forego a bench trial on inequitable conduct and submitted this issue to the court on the trial record, with supplemental briefing by the parties. The defendants' inequitable conduct claim is now ripe for decision.

3. The Law of Inequitable Conduct

"A patent may be rendered unenforceable for inequitable conduct if an applicant, with intent to mislead or deceive the examiner, fails to disclose material information or submits materially false information to the PTO during prosecution." *Digital Control Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1313 (Fed. Cir. 2006); *see also* 37 C.F.R. § 1.56(a) ("Each individual associated with the filing and prosecution of a patent application has a duty of candor and good faith in dealing with the Office, which includes a duty to disclose to the Office all information known to that individual to be material to patentability as defined in this section.").

The materiality of information withheld during prosecution may be judged by the "reasonable examiner" standard. *See id.* at 1316. That is, "[m]ateriality . . . embraces any information that a reasonable examiner would substantially likely consider important in deciding whether to allow an application to issue as a patent." *Akron Polymer Container Corp. v. Exxel Container, Inc.*, 148 F.3d 1380,

1382 (Fed. Cir. 1998) (citations omitted). Moreover, "[i]nformation concealed from the PTO may be material even though it would not invalidate the patent." *Li Second Family LP v. Toshiba Corp.*, 231 F.3d 1373, 1380 (Fed. Cir. 2000). "However, a withheld otherwise material [piece of information] is not material for the purposes of inequitable conduct if it is merely cumulative to that information considered by the examiner." *Digital Control Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1319 (Fed. Cir. 2009). "[T]he scope and content of prior art and what the prior art teaches are questions of fact." *Id.*

"The intent element of the offense is . . . in the main proven by inferences drawn from facts, with the collection of inferences permitting a confident judgment that deceit has occurred." *Akron Polymer*, 148 F.3d at 1385. "However, inequitable conduct requires not intent to withhold, but rather intent to deceive. Intent to deceive cannot be inferred simply from the decision to withhold [information] where the reasons given for the withholding are plausible." *Dayco Products, Inc. v. Total Containment, Inc.*, 329 F.3d 1358, 1367 (Fed. Cir. 2003). In addition, "a finding that particular conduct amounts to 'gross negligence' does not of itself justify an inference of intent to deceive; the involved conduct, viewed in light of all the evidence, including evidence indicative of good faith, must indicate sufficient culpability to require a finding of intent to deceive." *Kingsdown Med. Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867, 876 (Fed. Cir. 1988) (en banc in relevant part).

"The party asserting inequitable conduct must prove a threshold level of materiality and intent by clear and convincing evidence." *Digital Control*, 437 F.3d at 1313. "The court must then determine

whether the questioned conduct amounts to inequitable conduct by balancing the levels of materiality and intent, 'with a greater showing of one factor allowing a lesser showing of the other.'" *Id.* (quoting *Union Pac. Res. Co. v. Chesapeake Energy Corp.*, 236 F.3d 684, 693 (Fed. Cir. 2001)).

4. Discussion

Avid argues that its Standard Reader and tag incorporating the e5500B integrated circuit are not material because there is no evidence that these products were sold or publicly demonstrated in the United States prior to the critical date for the '326 patent. The court rejects this argument and finds that the Standard Reader and e5500B integrated circuit and tag are 102(b) prior art.[3] As an initial matter, the court finds that Dr. Hannis Stoddard's trial and deposition testimony is simply not credible on key issues. This finding flows from Stoddard's conspicuous inability to recall facts while testifying, combined with his refusal to acknowledge incontrovertible events.[4] Because Stoddard's testimony is

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[3] Additionally, to the extent Avid argues that its reader and tag were not successfully reduced to practice until after the critical date, and that any such pre-critical date sales were therefore experimental, the court finds that a reasonable examiner would find such information material to patentability because it is relevant to determining whether the patented devices were on sale before the critical date. *See Destron/IDI, Inc. v. Electronic Identifications Devices, Inc.*, Nos. 96-1382, 96-1383, 96-1392, 96-1393, 96-1394, 96-1395, 1997 WL 414646, at *4 (Fed. Cir. July 24, 1997) (unpublished).

[4] Stoddard, for example, refused to acknowledge that he even gave an interview to a newspaper prior to the close of September1989, where he indicated that he had implanted 5,000 tags in prize hunting falcons. *See* Brief of Defendants, Exhibit J at

not dependable, the court must look to Avid's corporate documents, which provide the court with a contemporaneous record of the company's activities.

One such document is a facsimile transmission, dated April 4, 1990, from Doug Hull to R. Sander and H. Meier. *See* DTX 18. The facsimile provides proof, nearly conclusive, that Avid was offering its Standard Reader and e5500B tag for sale in the United States well in advance of the critical date. The facsimile states:

> Hannis is demonstrating our system at the U.S. Livestock Committee on electronics identification, along with IDI and Texas Instruments. Interesting to learn that T.I. did not bring any product for demo and explained that it was not working as of yet. IDI was shocked when Hannis pulled out our "SEXY" reader and e5500B tag and read the AVID code. . . . Must expedite this 100 wafer run as we are re-

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122-23 (transcript of Stoddard's trial testimony); DTX 11. The record however, indicates that Avid had received a copy of the article as of September 29, 1989. For example, the facsimile number at the top of DTX 11, which is dated September 29, 1989, matches the facsimile number for Avid's home office, which is displayed on Avid's letterhead. *See* DTX 18. It is implausible, under these facts, for Stoddard to assert that he did not at least receive a copy of the article. Moreover, Stoddard offered no explanation as to how the reporter would have arrived at the quotes attributable to him. He also offered no explanation why he and Avid would have maintained a copy of this article for the length of time they did if it were truly inaccurate.

Stoddard also contended that in 1989, Avid was still selling relabeled chips manufactured by IDI. His testimony in that regard conflicts with sworn testimony he gave in another lawsuit. In that case, he testified that Avid had stopped selling IDI products by 1986 or 1987.

> ceiving many orders for product. . . . Please do all in your power to assist us in getting this wafer run expedited sooner than 1st of July, or we are in trouble. Must have wafers at SVI for assembly not later than June 1st, or we might miss our delivery deadline.

Id.[5] This is but one of many documents that support the court's finding that Avid was offering its Standard Reader and tag for sale in the United States before the critical date of the '326 patent.[6] Such activities are therefore 102(b) prior art.

Avid argues that its Standard Reader and tag incorporating the e5500B integrated circuit were not material to the prosecution of the '326 patent application. Avid's argument confuses anticipation with materiality. "[T]he test for materiality[, however,] is not whether there is anticipation or obviousness but, rather, what a 'reasonable examiner would consider . . . important in deciding whether to allow the appli-

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[5] This document, and its recount of Stoddard's demonstration of the new reader and e5500B tag, contradicts Stoddard's February 21, 2006, declaration filed in this court. In that declaration, Stoddard attested that he "did not demonstrate or sell a Standard Reader prior to August 15, 1990." Stoddard testified however, that no other reader could read the Avid code. *See* Brief of Defendants, Exhibit J at 84-85. As such, the Avid document establishes that Stoddard had demonstrated the Avid reader and e5500B chip well in advance of August 15, 1990.

[6] *See, e.g.*, DTX 19 (April 11, 1990, facsimile from Doug Hull to Eurosil stating "I have just signed up 4 of the largest animal control municipalities in the U.S., and that demand exceeds 150,000 chips, if I can deliver."); DTX 68 (January 31, 1990 facsimile from Michael Beigel regarding Avid parts stating "we need to expedite things, to have parts for 100 (125) readers before FEB 20.").

cation to issue as a patent.'" *A.B. Dick Co. v. Burroughs Corp.*, 798 F.2d 1392, 1397 (Fed. Cir. 1986) (quoting 37 C.F.R. § 1.56(a)); *see also Li Second Family Ltd. Partnership v. Toshiba Corp.*, 231 F.3d 1373, 1380-81 (Fed. Cir. 2000).

In view of the trial record, the court finds Avid's non-materiality argument implausible. At trial, for example, the defendants argued that Avid's Standard Reader and tag incorporating the e5500B integrated circuited anticipated the claims of the '326 patent. This issue, which was submitted to the jury, was the subject of contested expert testimony. The volume of expert testimony and amount of trial time spent in this regard demonstrates that these activities were the closest prior art to the '326 patent's disclosure.[7] A reasonable examiner would find such activity extremely important when evaluating patentability. Therefore, the court finds by clear and convincing evidence that Avid's Standard Reader and tag were highly material to the patentability of the '326 patent's claims.

Avid argues that it did not intend to deceive the PTO when it failed to notify the Examiner of its pre-critical date sales activity. "Direct proof of wrongful intent is rarely available but may be inferred from clear and convincing evidence of the surrounding circumstances." *Labounty Mfg., Inc. v. U.S. Int'l Trade Comm'n*, 958 F.2d 1066, 1076 (Fed. Cir. 1992) (citations omitted). In a facsimile dated October 1990,

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[7] In part because the Standard Reader and tag were the closest prior art to the disclosure of the '326 patent, the court finds that such art was not cumulative to other art that was before the Examiner during prosecution of the application that issued as the '326 patent.

Beigel wrote the following to Stoddard, "you should check with Dick Bartz our patent attorney whether selling to the public without a special confidentiality agreement before filing European patent applications will invalidate our chances to get a European patent." *See* DTX 27. Additionally, on January 24, 1991, Beigel wrote to Dick Bartz[8] and Stoddard stating, "[h]ere is the new material for the patent application. We're sorry about the delay in sending it, since that puts us all under more pressure." *See* DTX 251. A hand written note on the correspondence indicates that the new material consisted of an operating manual for Avid's reader. *Id.*

The above passages indicate that Beigel and Stoddard were generally aware that prior sales activity would affect their patent rights, and that sales activity had placed them in a time crunch with respect to filing their patent application. This knowledge, combined with the evidence of Avid's pre-critical date sales activities, as discussed above, supports the following findings: 1) that Avid was aware of the consequences of selling or offering to sell its reader and tag before filing the '326 patent application, 2) that Avid attempted to file the '326 patent application in advance of the 102(b) date, *i.e.* within one year after its first sales, but failed, and 3) that Avid intentionally withheld evidence of such sales from the PTO in an effort to deceive the PTO and secure allowance of the '326 patent. Additionally, Avid

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[8] Bartz's involvement in the prosecution of the '326 patent is unclear. The above passages are cited as evidence that Avid understood its duty of candor on the eve of filing the '326 patent, as well as demonstrating that Avid knew its sales activity could jeopardize its U.S. patent rights.

has put forth no persuasive reason for not disclosing the sales to the PTO. The court therefore finds, by clear and convincing evidence, that Avid acted with deceptive intent during the prosecution of the '326 patent.

Avid argues that Dr. Stoddard did not owe a duty of candor to the PTO because he was not substantively involved in the prosecution of the '326 patent. The court rejects this argument. Dr. Stoddard co-founded Avid, a closely held company, and has served as its president since 1985. *See* Brief of Defendants, Exhibit F. From the company's inception, Stoddard has been involved in all aspects of the company's operation, from marketing and sales, to research and development. For example, Stoddard specifically hired Beigel and Polish to reduce his conceptualized reader system, embodied in the '326 patent, to practice. *See* Brief of Defendants, Exhibit I at 130-132 (trial transcript; examination of Stoddard). Additionally, as explained above, Stoddard was involved in the prosecution of the '326 patent application. *See e.g.*, DTX 27 (discussed above); DTX 251 (discussed above). Stoddard's active involvement in all aspects of Avid supports the court's finding that he was substantively involved in the prosecution of the '326 patent.

Avid finally argues that the testimony of Doug Hull and Richard Fry is unreliable, and therefore should not be relied upon by the court. Hull, for instance, testified that Stoddard had instructed him to destroy documents relating to pre-critical date sales of the Standard Reader and tags. This issue is moot because the court has made its findings without crediting this evidence.

5. Conclusion

In view of the above discussion, the court finds the following: 1) that Avid's Standard Reader and e5500B tag were on sale prior to the critical date of the '326 patent, 2) that Avid's Standard Reader and e5500B tag were highly material to patentability, and 3) that Avid intentionally withheld information from the PTO in an effort to deceive the PTO and obtain allowance of the '326 patent. Having found that the threshold levels of materiality and intent are satisfied, the court has balanced the high level of materiality with the lower level of deceptive intent, and finds that Avid committed inequitable conduct. The court therefore concludes that the '326 patent is unenforceable.

SIGNED this 28th day of September, 2007.

/s/
T. JOHN WARD
UNITED STATES DISTRICT JUDGE

APPENDIX D

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

CIVIL ACTION NO. 2:04-cv-183 (TJW)

AVID IDENTIFICATION SYSTEMS, INC.

Plaintiff,

v.

PHILIPS SEMICONDUCTORS INC. ET AL.,

Defendants.

MEMORANDUM OPINION AND ORDER

Before the Court is Avid Identification Systems, Inc.'s ("Avid") Unopposed Motion For Reconsideration of the Court's Order of Inequitable Conduct (Docket Entry #457) and related papers. In its motion, plaintiff Avid moves the Court under Rule 60(b) to reconsider the Court's inequitable conduct finding related to Avid's U.S. Patent No. 5,235,326 ("the '326 patent"). (Docket Entry #427). Pursuant to a settlement agreement executed between the parties in this case, this motion is unopposed by defendants Datamars SA and The Crystal Import Corporation (collectively,"the Datamars" or "defendants"). The Court has carefully considered arguments made by Avid and the applicable law on the issues presented. The Court hereby DENIES Avid's motion. Also before the Court is Allflex USA, Inc.'s motion to appear as Amicus or Intervenor to oppose Avid's unopposed motion for reconsideration (Docket Entry #462).

Having ruled on Avid's motion, the Court DENIES Allflex's motion as moot.

I. Background

The parties to this case selected a jury on May 8, 2006. The trial commenced on May 16, 2006 and the jury reached its verdict on May 31, 2006. The jury found that defendants had willfully infringed Avid's asserted patents, including the '326 patent, and had engaged in unfair competition in violation of the Lanham Act. The jury awarded Avid $6 million in damages for Datamars' unfair competition and $26,891 for Datamars' patent infringement. (Dkt. Entry No. 372). In accordance with the jury's verdict, the court rendered final judgment in this case March 25, 2008. (Docket Entry #429).

On June 20, 2006, defendants filed a motion (Docket Entry #377) to render '326 patent, which is assigned to Avid, unenforceable for inequitable conduct. The Court entered an order granting defendants' motion on September 28, 2007. (Docket Entry #427). Following a recent settlement agreement between the parties, Avid moves the Court to vacate this order. Subsequent to filing this motion, Avid filed a Notice of Appeal on January 23, 2009, informing the Court that it had appealed the entry of Final Judgment as well as this Court's inequitable conduct finding to the United States Court of Appeals for the Federal Circuit.

II. Discussion

As a preliminary matter, the Court must determine if it continues to have jurisdiction over Avid's motion. It is well-established that once an appeal is taken, the district court is divested of jurisdiction "except to take action in aid of the appeal until the

case is remanded to it by the appellate court, or to correct clerical errors under Rule 60(a)." *See In re Fraser*, 98 F.Supp.2d 788, 792 (E.D. Tex. 2000) (citing *Travelers Ins. Co. v. Liljeberg Enters.*, 38 F.3d 1404, 1407 n. 3 (5th Cir. 1994)). The Fifth Circuit has recognized, however, that the district court is empowered "to consider on the merits and deny a Rule 60(b) motion filed after a notice of appeal, because the district court's action is in furtherance of the appeal." *Id.* (citing *Winchester v. U.S. Attorney for S. Dist. of Tex.*, 68 F.3d 947, 949 (5th Cir. 1995)). If a district court is inclined to grant the 60(b) motion, then it is necessary to obtain the leave of appellate court. *Id.* "Without obtaining leave, the district court is without jurisdiction, and cannot grant the motion." *Winchester*, 68 F.3d at 949. The Court has considered Avid's motion and is not inclined to grant it for reasons discussed below. Therefore, the Court need not seek leave in ruling on this motion.

In spite of the fact that Avid has entered into a settlement agreement with the defendants, Avid's motion is presented as motion to reconsider rather than a motion to vacate based on mootness arising from settlement between the parties. Absent "exceptional circumstances," a vacatur of this Court earlier ruling would not be justified based simply on the parties' settlement. *U.S. Bancorp Mortgage v. Bonner Mall P'ship*, 513 U.S. 18, 29 (1994); *see also Aqua Marine Supply v. AIM Machining, Inc.*, 247 F.3d 1216, 1221 (Fed. Cir. 2001)("When a case is moot, the Supreme Court in *Bancorp* explained that '[t]he principal condition to which we have looked [in determining whether vacatur is appropriate] is whether the party seeking relief from the judgment below

caused the mootness by voluntary action.'" (quoting *Bancorp*, 513 U.S. at 24)).[1]

Avid argues that because its settlement agreement with the defendants includes provisions on Datamars' obligations that depend on the outcome of this motion, the Datamars have a continuing dispute regarding the validity of the '326 patent. Therefore, it argues there is a continuing case or controversy between the parties related to the '326 patent.[2] The Court is not persuaded. The Court fails to see how defendants could "have a continuing dispute regarding the validity of the '326 patent" when they agree not to oppose the motion on the enforceability of that very patent. The Court finds that there is no longer any Article III case or controversy on the issue of unenforceability of the '326 patent, thereby rendering it moot. *Aqua Marine Supply v. AIM Machining, Inc.*, 247 F.3d 1216, 1220 (Fed. Cir. 2001) ("Under Article

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[1] The Supreme Court's holding in *Bancorp* applies to a district court's vacatur of its own judgment. *See Valero Terrestrial Corp. v. Paige*, 211 F.3d 112, 117 (4th Cir. 2000) ("In the circumstance of vacatur due to mootness, however, we are satisfied that the standards under 28 U.S.C. § 2106 and Rule 60(b) are essentially the same."); *Ericsson, Inc. v. InterDigital Communications Corp.*, No. 3:93-CV-1809-M, 2004 WL 1636924, at *10 (N.D. Tex. June 03, 2004) (*reversed on other grounds*) (stating that "district court judgments, like appellate judgments, are presumptively correct and valuable to the legal community"); *In re Fraser*, 98 F. Supp. 2d at 791 (holding that the rationale announced in *Bancorp* applies district court's vacatur as well).

[2] The Court notes that, in its motion to reconsider, Avid failed to bring any issues related mootness or settlement driven vacatur to the Court's attention. These arguments were made in response to Allflex's subsequent motion to appear as Amicus or Intervenor to oppose Avid's unopposed motion for reconsideration. *See* Avid's Response, D.E. #465 at 13-15.

III, we may only adjudicate 'concrete, living contests between adversaries.'"). Here, as a result of the agreement, Avid and the defendants are no longer adversaries. *Id.* Avid attempts to differentiate the holding in *Aqua Marine* by arguing that the settlement agreement between the parties here specifically enumerates defendants' continuing monetary interest in the validity of the '326 patent. However, in spite of Avid's assertions and the clause in the settlement agreement that Avid points to, the Court finds that Avid has attempted to employ the exact same strategy that the Federal Circuit rejected in *Aqua Marine*.[3] *Id.* ("Indeed, if we held otherwise, evasion of the Supreme Court's limitations on vacatur, discussed below, could be easily accomplished by simply settling the infringement question and allowing the patentee to continue to litigate validity, unencumbered by an opposing party."). Considered as a motion to vacate based on mootness, the Court fails to find any "exceptional circumstances" under the facts presented herein that would justify vacatur of the Court's earlier decision.[4] Therefore, Avid's unop-

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[3] As evidence of Datamars' interest in the issue, Avid points to the clause in the agreement that requires Datamars to pay an additional amount of $26,891 if this motion is granted. *See* Agreement, ¶8. However, same paragraph provides mechanisms to ensure that Avid is allowed to "continue to litigate validity, unencumbered by an opposing party." Specifically, Datamars covenant not to oppose this motion or to contest appellate jurisdiction or standing upon appeal of this Court's decision. *Id.*

[4] The Court is not inclined to grant Avid's motion on its merits either. The Court notes that for the most part, these are the same arguments that Avid extensively briefed in its responses to defendants' motion, and the Court rejected in its order. *See* Avid's Response and Sur-Reply (Dkt. No. 388, 399). The Court

posed motion for reconsideration of the court's order on inequitable conduct is DENIED.

SIGNED this 11th day of February, 2009.

/s/
T. JOHN WARD
UNITED STATES DISTRICT JUDGE

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also notes that Avid now focuses its arguments on Dr. Stoddard's inability to judge the materiality of the prior art and his involvement in the prosecution of the patent as compared to its earlier arguments, based on Dr. Stoddard's incredible testimony, that there was no sales activity prior to the critical date. However, the Court is not persuaded to change its earlier decision.

APPENDIX E – RELEVANT STATUTORY AND REGULATORY PROVISIONS

35 U.S.C. § 282. *Presumption of validity; defenses.*

A patent shall be presumed valid. Each claim of a patent (whether in independent, dependent, or multiple dependent form) shall be presumed valid independently of the validity of other claims; dependent or multiple dependent claims shall be presumed valid even though dependent upon an invalid claim. Notwithstanding the preceding sentence, if a claim to a composition of matter is held invalid and that claim was the basis of a determination of nonobviousness under section 103(b)(1), the process shall no longer be considered nonobvious solely on the basis of section 103(b)(1). The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.

The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded:

(1) Noninfringement, absence of liability for infringement, or unenforceability,

(2) Invalidity of the patent or any claim in suit on any ground specified in part II of this title as a condition for patentability,

(3) Invalidity of the patent or any claim in suit for failure to comply with any requirement of sections 112 or 251 of this title,

(4) Any other fact or act made a defense by this title.

In actions involving the validity or infringement of a patent the party asserting invalidity or noninfringement shall give notice in the pleadings or oth-

erwise in writing to the adverse party at least thirty days before the trial, of the country, number, date, and name of the patentee of any patent, the title, date, and page numbers of any publication to be relied upon as anticipation of the patent in suit or, except in actions in the United States Court of Federal Claims, as showing the state of the art, and the name and address of any person who may be relied upon as the prior inventor or as having prior knowledge of or as having previously used or offered for sale the invention of the patent in suit. In the absence of such notice proof of the said matters may not be made at the trial except on such terms as the court requires.

Invalidity of the extension of a patent term or any portion thereof under section 154(b) or 156 of this title because of the material failure-

(1) by the applicant for the extension, or

(2) by the Director, to comply with the requirements of such section shall be a defense in any action involving the infringement of a patent during the period of the extension of its term and shall be pleaded. A due diligence determination under section 156(d)(2) is not subject to review in such an action.

37 C.F.R. § 1.56. *Duty to disclose information material to patentability.*

(a) A patent by its very nature is affected with a public interest. The public interest is best served, and the most effective patent examination occurs when, at the time an application is being examined, the Office is aware of and evaluates the teachings of all information material to patentability. Each individual associated with the filing and prosecution of a patent application has a duty of candor and good faith in dealing with the Office, which includes a duty to disclose to the Office all information known to that individual to be material to patentability as defined in this section. The duty to disclose information exists with respect to each pending claim until the claim is cancelled or withdrawn from consideration, or the application becomes abandoned. Information material to the patentability of a claim that is cancelled or withdrawn from consideration need not be submitted if the information is not material to the patentability of any claim remaining under consideration in the application. There is no duty to submit information which is not material to the patentability of any existing claim. The duty to disclose all information known to be material to patentability is deemed to be satisfied if all information known to be material to patentability of any claim issued in a patent was cited by the Office or submitted to the Office in the manner prescribed by §§ 1.97(b)-(d) and 1.98. However, no patent will be granted on an application in connection with which fraud on the Of-

fice was practiced or attempted or the duty of disclosure was violated through bad faith or intentional misconduct. The Office encourages applicants to carefully examine:

(1) Prior art cited in search reports of a foreign patent office in a counterpart application, and

(2) The closest information over which individuals associated with the filing or prosecution of a patent application believe any pending claim patentably defines, to make sure that any material information contained therein is disclosed to the Office.

(b) Under this section, information is material to patentability when it is not cumulative to information already of record or being made of record in the application, and

(1) It establishes, by itself or in combination with other information, a prima facie case of unpatentability of a claim; or

(2) It refutes, or is inconsistent with, a position the applicant takes in:

(i) Opposing an argument of unpatentability relied on by the Office, or

(ii) Asserting an argument of patentability.

A prima facie case of unpatentability is established when the information compels a conclusion that a claim is unpatentable under the preponderance of

evidence, burden-of-proof standard, giving each term in the claim its broadest reasonable construction consistent with the specification, and before any consideration is given to evidence which may be submitted in an attempt to establish a contrary conclusion of patentability.

(c) Individuals associated with the filing or prosecution of a patent application within the meaning of this section are:

(1) Each inventor named in the application;

(2) Each attorney or agent who prepares or prosecutes the application; and

(3) Every other person who is substantively involved in the preparation or prosecution of the application and who is associated with the inventor, with the assignee or with anyone to whom there is an obligation to assign the application.

(d) Individuals other than the attorney, agent or inventor may comply with this section by disclosing information to the attorney, agent, or inventor.

(e) In any continuation-in-part application, the duty under this section includes the duty to disclose to the Office all information known to the person to be material to patentability, as defined in paragraph (b) of this section, which became available between the filing date of the prior application and the national or PCT international filing date of the continuation-in-part application.